Ontario Northland Transportation Commission

2009 – 2010 Financial Statements

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Ontario Northland

Ontario Northland Transportation Commission
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Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Commission's Audit and Finance Committee and have been approved by its Governing Board of commissioners. In addition, the consolidated financial statements have been audited by the Auditor General of Ontario, whose report follows.

T. Hargreaves
Chair

P. Goulet
Acting President and CEO

North Bay, Ontario
May 28, 2010

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Northland Transportation Commission
and the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at March 31, 2010 and the consolidated statements of investment by the Province of Ontario, operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 29, 2010

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Consolidated Balance Sheet

(dollars in thousands)

	March 31 2010	March 31 2009
Assets		
Current		
Cash and cash equivalents (Note 5)	$ 4,823	$ 7,471
Accounts receivable (Net of allowance - $3,677; 2009 - $3,172)	18,468	17,156
Inventory	18,319	17,624
Prepaid expenses	1,348	1,164
	42,958	43,415
Intangible assets (Note 6)	-	4,584
Investment in property, plant and equipment (Schedule 1)	297,381	280,271
Accrued pension benefit asset (Note 9a)	58,650	70,475
	$ 398,989	$ 398,745
Liabilities and Province of Ontario Equity		
Current		
Operating line of credit (Note 7)	$ 12,925	$ 11,870
Accounts payable and accrued liabilities	29,383	28,565
Current portion of long-term debt (Note 10a)	4,383	5,806
Current portion of capital lease obligations (Note 10b)	11	72
Current portion of deferred revenue	616	806
	47,318	47,119
Deferred revenue (Note 11)	828	897
Deferred contributions related to property, plant and equipment (Note 8)	89,078	66,800
Long-term debt (Note 10a)	34,369	33,172
Capital lease obligations (Note 10b)	24	35
Accrued Non-Pension Benefit Obligation (Note 9b)	64,232	61,821
	235,849	209,844
Contingencies (Note 16) / **Commitments** (Note 17)		
Equity		
Retained Earnings	158,645	184,413
Reserve for Self Insurance	4,495	4,488
	163,140	188,901
	$ 398,989	$ 398,745

Approved on behalf of the Commission:

T. Hodgson, Chair

Acting President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Equity

(dollars in thousands)

	March 31 2010	March 31 2009 (restated Note 3)
Retained Earnings		
Balance, beginning of year	$ 97,787	$ 112,729
Prior year's restatement (Note 3c)	86,626	86,626
Balance, beginning of year as restated	184,413	199,355
Net loss for the year	(25,761)	(14,742)
Net transfer to Reserve for Self Insurance	(7)	(200)
Balance, end of year	$ 158,645	$ 184,413

Reserve for Self Insurance (Note 14)		
Balance, beginning of year	$ 4,488	$ 4,288
Transfers (to) from Retained Earnings		
Interest earned	23	100
Annual premium	100	100
Claims	(116)	-
	7	200
Balance, end of year	$ 4,495	$ 4,488

Total Retained Earnings and Reserve for Self Insurance	$ 163,140	$ 188,901

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Operations

(dollars in thousands)

For the year ended March 31	**2010**	2009 (restated Note 3)
Revenues (Schedule 2)	**$ 144,924**	$ 142,982
Expenses (Schedule 2)	**133,759**	138,548
Income from operations, before other revenues and expenses	**11,165**	4,434
Other revenues and expenses		
Amortization (Schedule 2)	**14,673**	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(2,321)**	(2,301)
Write down of intangible assets (Note 6)	**4,039**	-
Pension expense (Schedule 2 and Note 9)	**16,415**	5,946
Sales tax assessment	**1,556**	-
Interest expense (Schedule 2)	**2,063**	2,104
Investment and other income	**(5)**	(3)
Investment income on Reserve for Self Insurance (Note 14)	**(23)**	(100)
Claims on Reserve for Self Insurance (Note 14)	**116**	-
Loss (gain) on sale of property, plant and equipment (Schedule 2)	**413**	(753)
Net expenses	**36,926**	19,176
Net loss for the period	**(25,761)**	(14,742)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Cash provided by (used in)		
Operating activities		
Loss	$ (25,761)	$ (14,742)
Items not affecting cash		
Amortization (Schedule 2)	14,673	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	(2,321)	(2,301)
Loss (gain) on disposal of property, plant and equipment	413	(753)
Writedown of intangible assets	4,039	-
Amortization of intangible assets	545	594
Deferred revenue	64	122
Pension expense (Note 9)	16,415	5,946
	8,067	3,149
Changes in non-cash working capital balances		
Accounts receivable	(1,312)	1,820
Inventory	(695)	376
Prepaid expenses	(184)	204
Accounts payable and accrued liabilities	818	2,786
Deferred revenue	(323)	(2,080)
	6,371	5,847
Investing activities		
Investment in property, plant and equipment	(32,935)	(30,809)
Proceeds from sale of property, plant and equipment	739	753
Funding contribution to accrued pension benefit asset	(148)	(191)
	(32,344)	(30,247)
Financing activities		
Operating lines of credit	1,055	(3,130)
Long-term debt (Note10a)	(226)	5,287
Capital lease obligations (Note 10b)	(72)	(195)
Deferred contributions related to property, plant and equipment	24,599	23,573
Funding contribution to accrued non-pension benefit obligation	2,031	(2,419)
	23,325	23,116
Change in cash and cash equivalents during the year	(2,648)	(1,284)
Cash and cash equivalents, beginning of year	7,471	8,755
Cash and cash equivalents, end of year	$ 4,823	$ 7,471
Supplemental disclosure of cash flow information:		
Interest paid during the year and included in net loss	$ 2,063	$ 2,104

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Investment in Property, Plant and Equipment

Schedule 1

(dollars in thousands)

For the year ended March 31			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	$ 275,388	$ 113,745	$ **161,643**	$ 150,255
Buildings	42,315	18,279	**24,036**	24,247
Equipment	75,857	48,469	**27,388**	29,029
Equipment under capital lease	1,022	198	**824**	874
Under construction	17,035	-	**17,035**	11,482
Telecommunications (Ontera)				
Equipment	154,970	116,250	**38,720**	39,031
Buildings	6,552	4,062	**2,490**	1,765
Under construction	11,481	-	**11,481**	10,298
Motor Coach Services				
Coaches	8,589	5,448	**3,141**	3,800
Buildings	2,796	201	**2,595**	2,548
Refurbishment				
Equipment	585	85	**500**	521
Buildings	3,407	346	**3,061**	3,024
Marine Services (Moosonee)				
Vessels	385	365	**20**	28
Under construction	2,908	-	**2,908**	1,794
Development				
Land and buildings	2,851	1,312	**1,539**	1,575
	$ 606,141	$ 308,760	$ **297,381**	$ 280,271

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Rail Services		
Sales revenue (Notes 15 and 21)	$ 53,415	$ 60,155
Government reimbursement (Note 12)	30,459	23,760
Operating revenue	83,874	83,915
Operating expense	70,029	77,293
Operating income	13,845	6,622
Amortization	8,899	8,819
Amortization of deferred contributions related to property, plant and equipment (Note 8)	(1,439)	(1,160)
Pension expense (Note 9)	9,647	3,498
Loss (gain) on sale of property, plant and equipment	262	(615)
Interest expense	925	957
Loss from operations	(4,449)	(4,877)
Telecommunications (Ontera)		
Sales revenue (Note 13)	32,662	31,365
Operating expense	26,862	26,641
Operating income	5,800	4,724
Amortization	4,969	4,520
Amortization of deferred contributions related to property, plant and equipment (Note 8)	(882)	(1,141)
Pension expense (Note 9)	2,660	1,015
Sales tax assessment	1,556	-
Interest expense	667	464
Loss from operations	(3,170)	(134)
Motor Coach Services		
Sales revenue	10,583	11,313
Operating expense	10,429	10,641
Operating income	154	672
Amortization	542	589
Pension expense (Note 9)	1,047	378
Loss on sale of property, plant and equipment	170	-
Interest expense	111	106
Loss from operations	(1,716)	(401)
Refurbishment		
Sales revenue	17,089	15,708
Operating expense	18,249	17,025
Operating loss	(1,160)	(1,317)
Amortization	85	85
Write down of intangible assets (Note 6)	4,039	-
Pension expense (Note 9)	1,708	653
Interest expense	250	311
Loss from operations	(7,242)	(2,366)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2 (continued)

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Marine Services (Moosonee)		
Sales revenue	156	129
Government reimbursement (Note 12)	41	40
Operating revenue	197	169
Operating expense	182	205
Income (loss) from operations	15	(36)
Rental Properties		
Sales revenue	519	512
Operating expense	362	323
Operating income	157	189
Amortization	37	37
Gain on sale of property, plant and equipment	(19)	(138)
Income from operations	139	290
Administration		
Operating revenue	-	-
Operating expense	7,646	6,420
Operating loss	(7,646)	(6,420)
Amortization	141	233
Pension expense (Note 9)	1,353	402
Interest expense	110	266
Loss from operations	(9,250)	(7,321)
Total Operations		
Sales revenue	114,424	119,182
Government reimbursement (Note 12)	30,500	23,800
Total revenues	144,924	142,982
Expenses	133,759	138,548
Income from operations	11,165	4,434
Amortization	14,673	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	(2,321)	(2,301)
Write down of intangible assets (Note 6)	4,039	-
Pension expense (Note 9)	16,415	5,946
Sales tax assessment	1,556	-
Interest expense	2,063	2,104
Loss (gain) on sale of property, plant and equipment	413	(753)
Loss from operations	$ (25,673)	$ (14,845)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

1. Nature of Business

The Ontario Northland Transportation Commission, an Operational Enterprise of the Ontario government, delivers a variety of commercial and non-commercial services, including rail freight, passenger rail, motor coach and telecommunications primarily in the northeastern portion of Northern Ontario.

2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc. (o/a Ontera), Air-Dale Limited and Nipissing Central Railway Company.

Inventory

With the exception of used rail, all materials and supplies are valued at the lower of average cost or net realizable value. Used rail is shown at unamortized book value determined at the time of retirement.

Investment in Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Buildings	50 years
Telecommunications equipment	15 to 25 years
Vehicles	3 years
Computer equipment	5 years
Coaches	12 years

Deferred contributions related to Property, Plant and Equipment

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations. The Commission records these assets at their original cost together with an offsetting credit to Deferred contributions related to property, plant and equipment. Deferred contributions related to property, plant and equipment are recognized as revenue on the same basis as the amortization of the related assets (see Note 8).

March 31, 2010

2. Significant Accounting Policies (continued)

Employee Future Benefits

Pension Plans - The Commission maintains a defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

Non-Pension Benefit Plans - The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. Net actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 9).

Intangible Assets

Intangible assets represent the value attributed to the development (internally generated) of new processes for a new line of business (Refurbishment) in 2006. Intangible assets that meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized based on the total number of units to be refurbished over the life of the expected benefit.

Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Contract revenues are generally recorded on a percentage of completion basis. Revenues from other sources including Government reimbursement are recognized when earned. Telecommunications toll revenue adjustments are recognized when measurement can be reasonably estimated (see Note 13).

Income Taxes

As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

2. Significant Accounting Policies (continued)

Foreign Currency Translation

Revenues and expenses arising from foreign currency transactions are translated to their Canadian equivalent at the rates of exchange in effect at the transaction date. Resulting gains or losses on settlement or translation are included in the determination of net income for the current year. Included in Rail revenue is a foreign currency gain of $ 853,000 (2009 - $1,258,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

Accounting Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of assets for amortization. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in the financial statements are property, plant and equipment, deferred contributions related to property, plant and equipment, accrued pension benefit asset, accrued liabilities and non-pension benefit obligation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks, and restricted cash.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized costs using the effective interest method of amortization.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Commission uses the following classifications:

- Cash and cash equivalents are classified as held-for-trading.
- Accounts receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities, operating lines of credit, long-term debt and capital lease obligations are classified as other liabilities.

2. Significant Accounting Policies (continued)

Comprehensive Income

Comprehensive income is defined as the change in equity for transactions and other events from non-owner sources. Other Comprehensive Income refers to items recognized in comprehensive income that are excluded from net earnings. The Commission does not have any transactions that would affect comprehensive income thus no impact on financial statements.

3. Changes in Accounting Policies

a) Deferred Contributions related to property, plant and equipment

In prior years, deferred contributions related to property, plant and equipment were presented as a Net Investments in property, plant and equipment in the Consolidated Statement of Investment by the Province of Ontario. The Commission has adopted a new policy to present the capital contribution as deferred contributions related to property, plant and equipment.

Deferred contributions related to property, plant and equipment represent the unamortized capital subsidies received from Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. Deferred contributions are recognized as revenue in the consolidated statement of operations on the same basis as the amortization of the related assets.

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

		2010		2009
Decrease in opening balance Investment by the Province of Ontario Net investment in property, plant and equipment	$	**66,800**	$	45,576
Decrease in ending balance Investment by the Province of Ontario Net investment in property, plant and equipment	$	-	$	66,800
Increase in opening balance deferred contributions related to property, plant and equipment	$	**(66,800)**		(45,576)
Increase in ending balance deferred contributions related to property, plant and equipment	$	-		(66,800)
Increase in amortization of deferred contributions related to property, plant and equipment	$	-		(2,301)
Increase in amortization	$	-		2,301

b) Reserve for Self Insurance

In prior years, the Reserve for Self Insurance was presented as an asset and as a Provision for Self Insurance on the Consolidated Balance Sheet. In accordance to generally accepted accounting principles, this reserve is now presented as restricted cash under cash and cash equivalents and provision of Reserve for Self Insurance in retained earnings.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

3. Changes in Accounting Policies (continued)

Reserve for Self Insurance (continued)

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

		2010		2009
Decrease in opening balance Reserve for Self Insurance (asset)	$	**(4,488)**	$	(4,288)
Decrease in ending balance Reserve for Self Insurance (asset)	$	-	$	(4,488)
Increase in opening balance cash and cash equivalents	$	**4,488**		4,288
Increase in ending balance cash and cash equivalents	$	-		4,488
Increase in opening balance Reserve for Self Insurance	$	**(4,488)**		(4,288)
Increase in ending balance Reserve for Self Insurance	$	-		(4,488)
Decrease in opening balance Provision for Self Insurance	$	**4,488**		4,288
Decrease in ending balance Provision for Self Insurance	$	-		4,488
Decrease in Rail expense	$	-		(100)
Increase in Investment income on Reserve for Self Insurance	$	-		(100)
Increase in transfer to Reserve for Self Insurance	$	-		200

c) Net investment other than share capital

Due to the change in policy for Deferred contributions related to property, plant and equipment and the related change in the presentation in the financial statements, the remaining investment by the Province of Ontario, referred to as Net investment other than share capital, has been reclassified as retained earnings. This change has been applied retroactively through retained earnings.

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

		2010		2009
Decrease in opening balance Net Investment other than share capital	$	**86,626**	$	86,626
Decrease in closing balance Net Investment other than share capital	$	-	$	86,626
Increase in opening balance Retained Earnings	$	**(86,626)**		(86,626)
Increase in ending balance Retained Earnings	$	-		(86,626)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

4. Future Accounting Changes

Financial statement standards:

The Province has identified the Commission as an Other Government Organization for financial statement purposes. Due to the uncertainty as to the upcoming changes to International Financial Reporting Standards (IFRS) and Public Sector Accounting Board (PSAB) standards, it has yet to be determined by the Province whether the Commission will adopt IFRS or PSAB for its financial statement presentation.

Business combinations:

This section replaces the former Section 1581 "Business combinations" and provides the Canadian equivalent to IFRS 3 "Business Combinations" (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities and to recognize and measure the goodwill or gain from a bargain purchase acquired in the business combination. Acquisition-related costs are also to be expensed. This standard is effective in fiscal 2011 and is not expected to have a significant impact on the Commission's financial statements.

Consolidated financial statements, Section 1601 and Non-controlling interests, Section 1602:

These two sections replace Section 1600 "Consolidated financial statements". Section 1601 "Consolidated financial statements" carries forward guidance from Section 1600 "Consolidated financial statements" with the exception of non-controlling interests which are addressed in a separate section. Section 1602 "Non-controlling interests", requires the Commission to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions. This standard is effective in fiscal 2011 and is not expected to have a significant impact on the Commission's financial statements.

5. Cash and cash equivalents

	2010	2009
Cash	**$ 328,000**	$ 2,983,000
Cash related to Reserve for Self Insurance (Note 14)	**4,495,000**	4,488,000
Cash and cash equivalents	**$ 4,823,000**	$ 7,471,000

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

6. Intangible Assets

	2010	2009
Balance - beginning of year	**$ 4,584,000**	$ 5,178,000
Amortization	**(545,000)**	(594,000)
Write down of intangible assets	**(4,039,000)**	-
Balance - end of year	**$ -**	$ 4,584,000

Intangible assets represent the unamortized portion of the development costs for the transit car refurbishment program. These costs have been written down in the current fiscal year as the benefits they provide are not anticipated to extend beyond the end of the current contract which is expected to be completed in fiscal 2011.

7. Operating Lines of Credit

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $8,000,000, of which $8,000,000 was being utilized as at March 31, 2010 (2009 - $8,000,000) which bears interest at the Province of Ontario's cost of borrowing plus 5 basis points on the date of each advance. In addition, the Commission has a revolving operating line of credit with the OFA in the amount of $7,000,000, of which $4,925,000 was being utilized as at March 31, 2010 (2009 - $3,870,000) which bears interest at the Province of Ontario's cost of borrowing plus 40 basis points based on the date of each advance.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of $1,500,000 which is available for letters of guarantee and is secured by the Commission's accounts receivable. As of March 31, 2010, two letters of guarantee totalling $1,428,000 (2009 - $ 1,428,000) have been issued with an annual renewal commission of 0.375%.

8. Deferred contributions related to property, plant and equipment

Deferred contributions related to property, plant and equipment represent the unamortized capital subsidies received from Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. The amortization of deferred contributions related to property, plant and equipment is recorded as revenue in the consolidated statement of operations at a rate equal to the amortization of the related assets.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

8. Deferred contributions related to property, plant and equipment (continued)

The changes in the unamortized deferred capital contributions balance are as follows:

	2010	2009 (restated Note 3)
Balance - beginning of year	**$ 66,800,000**	$ 45,576,000
Contributions from the Province	**24,599,000**	23,573,000
Retirements	-	(48,000)
Amortization to revenue	**(2,321,000)**	(2,301,000)
Balance - end of year	**$ 89,078,000**	$ 66,800,000

9. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The ONTC pension plan has an annual measurement date of December 31st.

The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian Generally Accepted Accounting Standards using management's best estimates. The date of the last actuarial valuation for funding purposes was January 1, 2007. The subsequent actuarial valuation for funding purposes as at January 1, 2010 is expected to be received later in fiscal 2010-2011 and therefore is not reflected in the financial statements.

The pension fund's target percentage allocation and average asset allocations as at March 31, 2010 and March 31, 2009, by asset category are as follows:

	Target	2010	2009
Equity securities – Domestic	20% - 30%	**23.4%**	19.7%
– Foreign	10% - 30%	**17.5%**	17.4%
Debt securities	35% - 55%	**55.9%**	60.5%
Real estate	0% - 15%	**1.9%**	1.6%
Short term and other	0% - 15%	**1.3%**	0.8%
Total		**100%**	100%

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

9. Employee Future Benefits (continued)

a. Reconciliation of accrued benefit asset to accrued benefit liability

	Pension	SERP	2010	2009
Accrued benefit obligation – end of year	$(505,152,000)	$(2,398,000)	$ (507,550,000)	$ (418,799,000)
Plan assets at fair value – end of year	422,865,000	-	422,865,000	409,139,000
Funded status – plan (deficit) surplus	(82,287,000)	(2,398,000)	(84,685,000)	(9,660,000)
Unamortized initial liability	-	392,000	392,000	590,000
Unamortized past service costs	12,516,000	70,000	12,586,000	14,477,000
Unamortized net actuarial (gain) loss	131,165,000	(808,000)	130,357,000	65,068,000
Accrued benefit asset (liability) net of valuation allowance – end of year	$ 61,394,000	$(2,744,000)	$ 58,650,000	$ 70,475,000

	Pension	SERP	2010	2009
Accrued benefit asset – beginning of year	$ 73,011,000	$(2,536,000)	$ 70,475,000	$ 73,167,000
Expense	(11,617,000)	(356,000)	(11,973,000)	(2,883,000)
Funding contributions (by employees)	-	148,000	148,000	191,000
Accrued benefit asset – end of year	$ 61,394,000	$(2,744,000)	$ 58,650,000	$ 70,475,000

b. Accrued Non-Pension Benefit Obligation

	2010	2009
Accrued benefit obligation - beginning of year	$ (61,821,000)	$ (55,839,000)
Unamortized net actuarial (gain)	(2,411,000)	(5,982,000)
Accrued benefit liability - end of year	$ (64,232,000)	$ (61,821,000)

	2010	2009
Accrued benefit liability - beginning of year	$ (61,821,000)	$ (61,177,000)
Expense – Non-WSIB	(3,671,000)	(3,770,000)
Expense (recovery) – WSIB	(240,000)	707,000
Funding contributions – Non-WSIB	2,031,000	2,419,000
Adjustment to match booked position – Non-WSIB	(531,000)	-
Accrued benefit liability - end of year	$ (64,232,000)	$ (61,821,000)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $12,467,000 (2009 - $12,227,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2009.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

9. Employee Future Benefits (continued)

c. Components of Net Periodic Pension Benefit Expense

	2010	2009
Current service cost less employee contributions	**$ 7,729,000**	$ 8,778,000
Interest cost on accrued benefit obligation	**27,824,000**	26,252,000
Expected return on plan assets	**(27,643,000)**	(34,219,000)
Amortization of initial obligation	**197,000**	197,000
Amortization of past service costs	**1,892,000**	1,892,000
Amortization of net actuarial loss (gain)	**1,974,000**	(17,000)
	$11,973,000	$ 2,883,000

d. Components of Net Periodic Non-Pension Benefit Expense

	2010	2009
Current service cost	**$ 1,136,000**	$ 318,000
Interest on accrued benefit obligation	**2,920,000**	2,745,000
Amortization of net actuarial gain	**(145,000)**	-
Adjustment to match booked position	**531,000**	-
	$ 4,442,000	$ 3,063,000

e. Weighted Average Assumptions

Discount rate - pension	**5.00**	6.75
Discount rate - non pension	**5.75**	6.75
Expected long-term rate of return on plan assets	**7.00**	7.00
Rate of compensation increase	**4.00**	4.00
Average remaining service period - pension (years)	**12**	12
Medical cost increases	**4.5% to 8.5%**	4.5% to 8.5%

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

10. Long-term Debt and Capital Lease Obligations

	2010	2009
a. Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30,000 for 15 years beginning February 1, 2005.	**$ 2,809,000**	3,022,000
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156,000 for 15 years beginning January 1, 2000.	**7,789,000**	9,184,000
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109,000 for 15 years beginning September 1, 1999.	**5,040,000**	6,000,000
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13,000 for 25 years beginning February 1, 2006.	**2,083,000**	2,139,000
Loan from Ontario Financing Authority, bearing interest at 4.717% per annum, repayable in blended annual payments of $1,681,000 for 4 years beginning March 31, 2007.	**-**	1,605,000
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64,000 for 10 years beginning April 30, 2008. Secured by assets of Ontera.	**5,031,000**	5,528,000
Construction advance from the Bank of Montreal, bearing interest at the bank's prime rate less .75%. Further advances will be made up to $17,000,000 then converted to a fixed term loan, term not to exceed 10 years, bearing interest at bank cost of funds plus 40 basis points. Secured by assets of Ontera.	**16,000,000**	11,500,000
	38,752,000	38,978,000
Less current portion	**4,383,000**	5,806,000
	$ 34,369,000	$ 33,172,000

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

10. Long-term Debt and Capital Lease Obligations (continued)

Payments required in the next five years and thereafter are as follows:

2010-2011	$ 4,383,000
2011-2012	4,575,000
2012-2013	4,778,000
2013-2014	4,994,000
2014-2015	3,976,000
Thereafter	16,046,000
	$ 38,752,000

	2010	2009
b. Capital lease bearing interest at 7% per annum, repayable in blended monthly payments of $1,000 for 5 years beginning September 22, 2006.	**35,000**	46,000
Capital lease bearing interest at 5.93% per annum, repayable in blended monthly payments of $7,000 for 4 years beginning January 24, 2006	**$ -**	61,000
	35,000	107,000
Less current portion	**11,000**	72,000
	$ 24,000	35,000

Payments under capital leases included above are as follows:

2010-2011	$ 13,000
2011-2012	25,000
Total minimum payments	38,000
Less: amount representing interest	3,000
Obligations under capital lease	$ 35,000

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

11. Deferred Revenue

Included in Deferred Revenue are the following two significant items:

In 2003, the Commission entered into a 20-year agreement with Hydro One for its use of the Commission's fibre optic cable, expiring in March 2022. The total contract value is $1,380,000. The remaining balance of $897,000 has been included as deferred revenue, of which $828,000 relates to periods after March 31, 2011. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2010, $69,000 (2009 - $69,000) was included as revenue.

In 2004, the Commission entered into a multi-year contract to refurbish commuter cars. Under the terms of the contract, the Commission received an advance from the customer of $4,030,000 in 2005-2006 in addition to the $2,627,000 received in 2004 to defray contract costs. An amount of $NIL (2009 - $254,000) has been included as deferred revenue. The deferred revenue was recognized based on the percentage of completion method. During 2010, $ 254,000 (2009 - $ 2,011,000) of the advance was recognized as revenue.

12. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development, Mines and Forestry, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. A reimbursement of $2,500,000 was received for the year ended March 31, 2010.

Details of Government reimbursement are as follows:

	2010	2009
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	**$ 21,160,000**	$ 21,260,000
Marine Services (Moosonee)	**40,000**	40,000
One-time funding	**6,800,000**	-
	28,000,000	21,300,000
From Transport Canada:		
Current year's operations	**2,500,000**	2,500,000
	$ 30,500,000	23,800,000

The Commission is dependent on these reimbursements to carry out its non-commercial operations.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

13. Telecommunications Revenue

The Commission's Telecommunications Division has telecommunications interconnection and traffic settlement agreements with Bell Canada that permits the two companies to exchange and settle on toll traffic and data circuits that traverse their respective networks. The Access Tariffs charged by Local Exchange Carriers are regularly reviewed by the CRTC and are not subject to any retroactive adjustments. In keeping with the Commission's accounting policy, any revenue or cost adjustments whether positive or negative are recognized in the year in which they become known and estimable.

14. Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission transfers $100,000 from retained earnings to the Reserve for Self Insurance to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in operations then transferred to/from the reserve.

Reserve assets include cash in the amount of $ 4,411,000 (2009 - $ 4,388,000) plus $84,000 (2009 - $100,000) receivable from the Commission.

Periodically, the Commission borrows cash from the fund for its temporary use. The Commission pays interest to the Reserve at the bank's prime rate less 1.75% on these temporary borrowings.

15. Passenger Revenue

In compliance with the Travel Industry Act, the 2010 gross retail sales were $227,000 (2009 - $216,000) and the 2010 gross wholesale sales were $83,000 (2009 - $83,000).

16. Contingencies

a. Ontera Assets
O.N.Tel Inc. (operating as Ontera) has sustained losses from operations over the current and the past six periods (see Schedule 2). In response to the situation, management developed a business plan in 2007 that required a significant investment in Ontera's property, plant and equipment along with associated financing. The Province approved the plan in 2007 including the underlying capital investment component. Financing of $23,000,000 from the Bank of Montreal to support the plan was obtained in 2008; of which, $22,000,000 has been drawn by March 31, 2010 (see Note 10a).

b. Statement of Claim
Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance after application of a $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

17. Commitments

The Commission has contractual obligations on a number of operating leases for such items as rail cars, computer equipment, automotive equipment and other. It is management's opinion that in aggregate the annual cost of these leases is not significant to the Commission as a whole.

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

18. Financial Instruments

The Commission's financial instruments consist of cash and cash equivalents, accounts receivable, operating lines of credit, accounts payable and accrued liabilities, long-term debt, and capital lease obligations.

Fair Value

The fair value of cash and cash equivalents, accounts receivable, Self Insurance Fund, operating lines of credit, and accounts payable and accrued liabilities, are comparable to their carrying value due to their short-term maturity date. The fair value of long-term debt and capital lease obligations is approximately equal to its carrying value since the applicable interest rates are comparable to the market rates.

Financial Risk Management

In the normal course of operations, the Commission is exposed to various risks such as commodity risk, credit risk, currency risk, interest rate risk and liquidity risk. To manage these risks, the Commission follows a financial risk management framework, which is monitored and approved by senior management with a goal of maintaining a strong balance sheet and optimizing free cash flow.

Commodity Risk

The Commission is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increase in the price of diesel. Because fuel expenses constitute a large portion of the Commission's operating costs, volatility in diesel fuel prices can have significant impact on the Commission's income. Items affecting volatility in diesel fuel include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events. The impact to net income if diesel fuel prices increase by one cent per litre would be a decrease in net income by $102,000. The impact of variable fuel expenses is mitigated substantially through a fuel surcharge program which apportions incremental changes in fuel prices to shippers within agreed upon guidelines.

March 31, 2010

18. Financial Instruments (continued)

Credit Risk

The Commission is exposed to credit risk due to the concentration of large customers (see Economic Dependence - Note 21 for further details).

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Commission's program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Commission maintains allowances for potential credit losses, and any losses to date have been within management's expectations.

The following table presents an analysis of the age of customers accounts receivable net of allowance as at the date of the financial statements.

As at March 31, 2010

Customer accounts receivables net of allowance of doubtful accounts (in thousands)		
Current	$	**16,564**
30-60 days past billing date		**990**
60-90 days past billing date		**298**
90-120 days past billing date		**251**
Greater than 120 days past billing date		**365**
Trade accounts receivable	$	**18,468**

Seventy percent of the balance in the greater than 120 days past billing date ($256,000) is due from one large customer.

The following table presents a summary of the activity related to the Commission's allowance for doubtful accounts.

Years ended March 31 (thousands)		**2010**		2009
Balance, beginning of year	$	**3,172**	$	1,525
Additions (provision for doubtful accounts)		**614**		1,682
Net use		**(109)**		(35)
Balance, end of year	$	**3,677**	$	3,172

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

18. Financial Instruments (continued)

Credit Risk (continued)

The Commission must make significant estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to allowance account against customer account receivable. The provision for doubtful accounts is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and for the telecommunication division it is determined on a percentage of outstanding customer balances.

Currency Risk

The Commission undertakes transactions denominated in United States dollars and as such is exposed to fluctuations in foreign exchange rates. The Commission generates revenues and incurs expenses in Canadian and United States dollars. When the Canadian dollar changes relative to the U.S. dollar, income reported in Canadian dollars will change. The impact of a strengthening Canadian dollar on U.S. dollar revenues and expenses will reduce net income because the Commission has more U.S. dollar revenues than U.S. dollar expenses. The impact to net income if the Canadian dollar strengthens by one cent would be a decrease in net income by $44,000. The impact of currency fluctuations is mitigated substantially by the settlement of its monthly rail settlement with customer receipts in U.S. dollars. The Commission does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest Rate Risk

The Commission manages its cash according to its operational needs. The Commission is exposed to interest rate cash flow risk to the extent that the operating lines of credit and construction advances have a floating rate of interest.

The construction loan has a balance at year end of $16,000,000 with a floating interest rate of prime less .75. The impact to net income if interest rates increase by one percentage would be a decrease in net income by $160,000. The Commission plans to convert this construction loan into a fixed loan in the first quarter of fiscal 2011.

The Commission's long-term debt and capital lease obligations have fixed interest rates. Also, the Commission will repay its long-term debt and capital lease obligations at maturity. As a result, management is of the opinion that the risks associated with long-term debt and capital lease obligations are minimal.

Liquidity Risk

The Commission monitors its liquidity risk to ensure access to sufficient funds to meet operational requirements. The Commission manages liquidity risk by monitoring forecasts and actual cash flows and by managing maturity profiles of financial assets and financial liabilities. Management provides these reports to the Commission and the Province on a regular basis. The Commission does not use derivative instruments to reduce its exposure to liquidity risk.

19. Capital Disclosures

Management's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern, so that it can continue to provide benefits to the Province of Ontario and to maintain an optimal capital structure to reduce the cost of capital.

The Commission's objectives when managing capital are:

- To support and promote northeastern Ontario economic development, job creation and community sustainability;
- To support, promote and enhance transportation and telecommunications linkages and clustering between communities within the region and between northeastern Ontario and other regions.

The Commission defines its capital as follows:

- Long term debt and capital leases, including the current portion thereof,
- Short term borrowing, and
- Retained earnings.

The Commission manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Commission requires approvals from the Province to maintain or adjust its capital structure. The Commission is not subject to any externally imposed capital requirements.

20. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $138,000 (2009 - $142,000) for financial and administrative support.

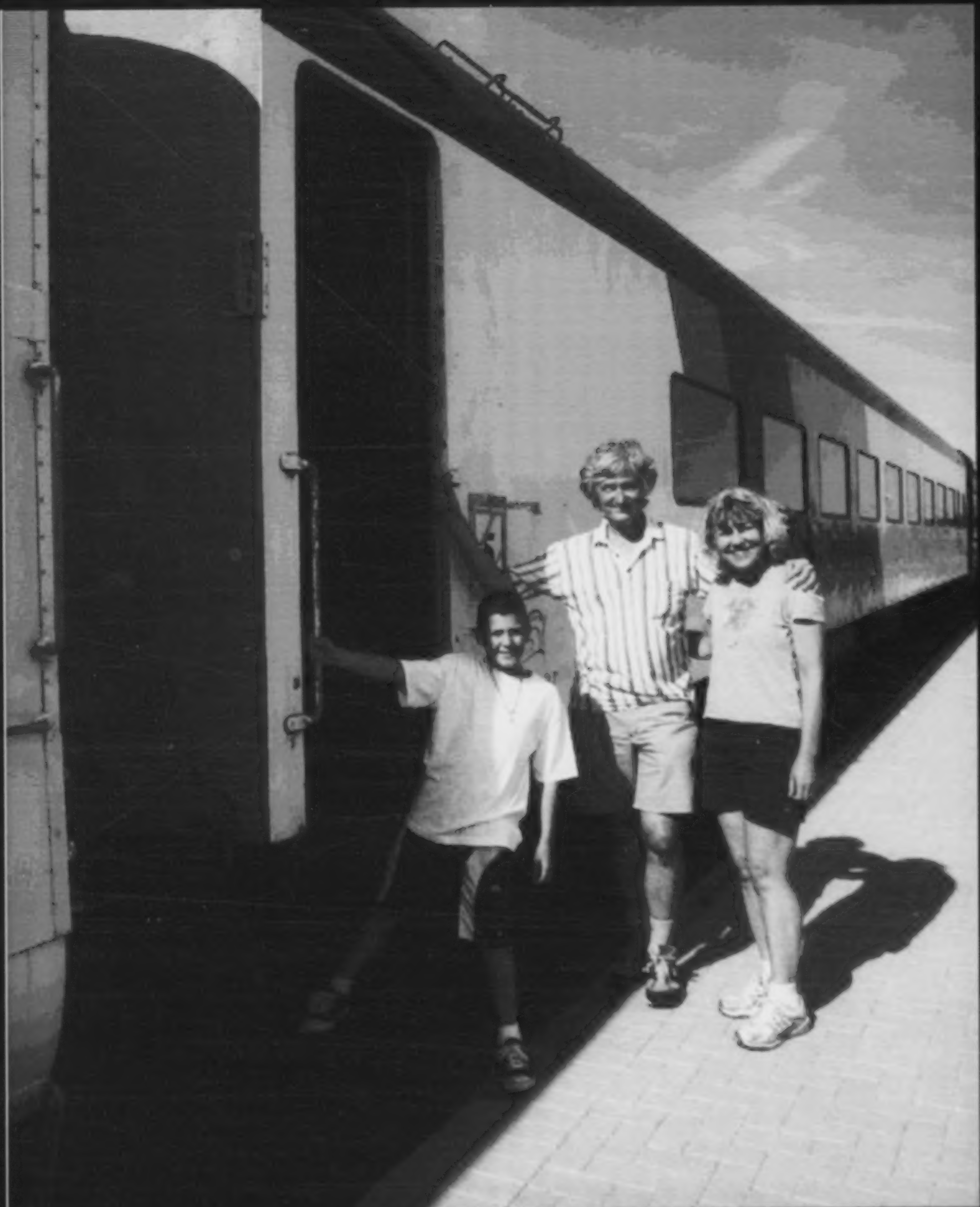
21. Economic Dependence

During 2010, the Rail Services Division derived 49% (2009 - 44%) of its revenue from three major customers.

22. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to current year's presentation.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.



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